

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2731 – Pilot Project New Tax Incentive (LSB 5535 HZ)

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Fiscal Note Version - New

Description

House File 2731 allows two cities to qualify as pilot projects for a new tax incentive equal to 3.0% of the wages paid employees in created or retained jobs.

Significant features of the proposal include:

- To qualify for the incentive, businesses must create at least 10 jobs or make a qualifying capital investment of at least \$500,000.
- A currently existing job may qualify for the incentive if it is part of a business retention project.
- Qualifying capital investments include real property, long-term lease payments, and equipment purchases.
- The level of pay for the created jobs must equal at least the “countywide average wage.”
- The business must be located in an Urban Renewal Area (Tax Increment Financing District).
- The agreement is limited to a maximum of 10 years.
- New agreements cannot be created after June 30, 2010.
- The tax incentive is equal to 3.0% of the gross wages paid to an employee holding a qualified job. The tax incentive is not related to the amount of State income tax actually withheld from the employees.
- Instead of forwarding all of the income tax withheld from its employees, an employer retains an amount equal to 3.0% of gross wages paid to employees in created jobs.
- If the amount of tax withheld from the employees is less than the 3.0% incentive, the employer may retain withholding from employees not included in the new jobs agreement.
- The business forwards the 3.0% incentive to the pilot project city for deposit into the city’s Special Fund created pursuant to Section 403.19(2), Code of Iowa.
- The revenue received by the city shall be used for a project related to the business.
- The two cities along the western border of Iowa eligible under the qualification set forth in the Bill are Sioux City and Council Bluffs.

Assumptions

1. One of the additional cities selected as pilot project city will be Davenport and the other will be one of the other six largest cities along the Illinois border.
2. The tax incentive agreements will cover 570 jobs in FY 2007 and the number will grow to 2,457 by FY 2010, the last year allowed for new agreements.

3. The average gross wage for jobs subject to the agreements will be \$33,400 in FY 2007 and increase at an annual rate of 3.0%.
4. There will be sufficient tax revenue available at each business to meet the 3.0% tax incentive.

Fiscal Impact

The amounts listed in the "HF 2731 Tax Incentive" column of the following table presents the estimated direct impact on State General Fund revenue of the new tax incentive created in HF 2731.

Estimated Jobs, Wages, and Tax Incentive			
	<u>Jobs</u>	<u>Average Gross Wage</u>	<u>HF 2731 Tax Incentive</u>
FY 2007	570	\$33,400	\$571,000
FY 2008	1,169	34,402	1,206,000
FY 2009	1,797	35,434	1,910,000
FY 2010	2,457	36,497	2,690,000
FY 2011	2,457	37,592	2,771,000
FY 2012	2,457	38,720	2,854,000

The numbers in the table do not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

Sources

Department of Economic Development
Legislative Services Agency Analysis

/s/ Holly M. Lyons

March 28, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
